Congress of the United States
House of Representatives
Washington, DC 20515

Statement of Congressman Adam H. Putnam (FL-12)
To the House Committee on the Budget
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Mr. Chairman, Mr. Ranking Member and fellow Members of the House Committee on the Budget, thank you for providing me with this opportunity to share my Budget interests and priorities with you. Put simply, my priority is not a request for a new program, but a request that we begin a process, the fruits of which may not be seen conclusively for decades. Just as we seek a bipartisan consensus on critical budget issues, such as use of the existing tax surplus to fund national priorities, tax reform and reduction, and keeping Social Security and Medicare solvent and relevant, so we should also seek a generational consensus on these same issues.

We particularly need to seek this generational consensus on Medicare and Social Security because together they consume about 33% of the federal budget and constitute the largest and most comprehensive public program in the United States[1]. Social Security is part of nearly every American's life and an important source of income for most of today's older Americans. Social Security provides more than half of the total income of two-thirds of today's retirees. Social Security provides nearly all of the income of one-third of the elderly. The Social Security Administration estimates that, without Social Security benefits, 47 percent of individuals aged 65 and older would live in poverty, four times as many as are in poverty today.[2]

Just as importantly we need to seek this generational consensus on Social Security and Medicare because for the first time in the history of these programs, significant populations from five generations of Americans have a claim on program benefits.

Chart of November 1, 2000 Five-Year Age Groups (total population 276,059,000)[3]

Under 5 years:	18,945,000
5 to 9 years:	19,681,000
10 to 14 years:	20,017,000
15 to 19 years:	19,894,000
20 to 24 years:	18,693,000

25 to 29 years:	17,625,000
30 to 34 years:	19,564,000
35 to 39 years:	22,044,000
40 to 44 years:	22,769,000
45 to 49 years:	20,059,000
50 to 54 years:	17,626,000
55 to 59 years:	13,425,000
60 to 64 years:	10,757,000
65 to 69 years:	9,414,000
70 to 74 years:	8,758,000
75 to 79 years:	7,425,000
80 to 84 years:	4,968,000
85 to 89 years:	2,734,000
90 to 94 years:	1,196,000
95 to 99 years:	369,000
100 years and over:	68,000

Today, there are over 45.6 million Americans aged 60 and older, and over 1.5 million Americans aged 90 and over – including my grandfather, Dudley A. Putnam. Many Americans who are now retired, or who plan to retire in the near future, fear that benefits will be reduced, or the retirement age raised, because there are not enough young workers entering the workforce to fund Social Security and Medicare through a "pay as you go" payroll tax based system.

As one assesses the impact on the system as members of the "Baby Boom Generation" stop paying payroll taxes and start claiming benefits it is clear that their fears are not unjustified. Over 76.5 million Americans belong to the Baby Boom Generation, that's almost 1/3 of our present population of 270 million and the core of our workforce.[4] Needless to say, as the Baby Boomers begin to retire the impact on the economy and Social Security and Medicare will be staggering. Without immediate action on our part, Social Security and Medicare, as now funded, are not sustainable.

In 1945 the ratio of workers to beneficiaries was 41.9 to 1
By 1950 it had decreased by more than half to 16.5 to 1
By 1960 it had again decreased by more than two thirds to 5.1 to 1
By 1975 to ratio had decreased down to 3.2 workers for each beneficiary

The ratio of workers to recipients has held fairly steady since the mid-1970s. Currently the ratio stands at about 3.4 workers to each recipient. As the Baby Boom Generation begins to retire this ratio will continue to decrease, eventually reaching a level of 2 workers for each recipient by approximately 2030[5].

Just as many older Americans look upon the retirement of the Baby Boomers and fear benefit reductions or an increase in the retirement age, so many Americans of my generation look at the retirement of the Baby Boomers and rightly doubt the future viability of a "pay as you go" system. Many younger workers question the fairness of a retirement system where three out of every four dollars that they and their employers send in go to pay for their parents' and grandparents' benefits.[6] Workers aged 22 to 34 already pay the highest Social Security tax rates, an effective rate of over 10% in some cases,[7] yet they do not receive a market-based return on their contributions. Is there any wonder that they doubt the relevance of a system that taxes them at 10%, yet produces a declining rate of return on their cash contributions that is far lower than they could earn through investing their contributions in a simple certificate of deposit?

Indeed, young workers can expect future returns from Social Security of from only 0.58 percent (for high-wage earners) to 2.93 percent (for low-wage workers) *if* the system somehow manages to pay all future benefits without raising taxes[8] and young workers rightly fear that to fund a pay as you go system, payroll taxes *will* be raised to ruinous levels as the ratio of workers to beneficiaries decreases. As the following chart illustrates, their fears are not unjustified because, as might be expected, as the ratio of workers to recipients has fallen, the tax rates paid by workers have risen.

In 1945 the FICA tax rate was 1%
By 1950 it had risen to 1.5%
By 1960 it had doubled to 3%
By 1975 it stood at 4.95%

Since 1975 the tax rates paid by individuals for Social Security have risen to 6.2%, plus an additional 6.2% paid by their employers, making a total of 12.4%. Perhaps even more importantly, the taxable earnings bases have also risen steadily since the inception of Social Security, from a low of $3,000 to the current high of $80,400.[9]

When the ratio of workers to beneficiaries was over 40 to 1, and the tax rate was 1% on the first $3,000 of income, a pay as you go system was a viable option. When the ratio of workers to recipients approaches 2 to 1 and the effective tax rate is at 10% and rising, the need for a new consensus is clear.

My concern for developing this new consensus on Social Security and Medicare goes beyond the issue of a generational wealth transfer and straight to the heart of the relationship between a democratic government and the people. Pundits and politicians alike wonder at the decline in political participation and the rise in cynicism about government among today's young people. Let me suggest that a significant factor in this cynicism and lack of interest in political participation among young people – and Baby Boomers too for that matter -- is a belief that government is incapable of fulfilling its responsibilities to programs like Social Security and Medicare because we in the Congress are incapable of moving beyond the polarizing rhetoric of campaigns to address the root of the problem – making Social Security and Medicare solvent and relevant beyond the 10 year projection. We can change that *if* together we seek, and find, a bipartisan and cross-generational consensus on reforms to the funding mechanism for Social Security and Medicare.

As a first step in the consensus building process, please allow me to outline a few points where I believe we can and should reach consensus.

First, let us agree that the surest way to preserve Social Security and Medicare benefits for existing and future beneficiaries is to boost economic growth. Surely there is already a consensus among us that if the economy is larger, the unavoidable burden of supporting benefits for ever larger numbers of retirees will be more feasible economically and politically.[10]

Second, let us agree on the timing. I believe that we can reach a bipartisan and cross-generational consensus on these important issues if, as we deliberate on the budget, we will commit ourselves to look beyond the next fiscal year and consider the next fifty years as well. We have an obligation to act *now* – before the cash flow into the system turns negative -- to put the system on a more economically and actuarially sound basis to allay the fears of those who are counting on its benefits.

Third, we must review previously authorized programs for efficiency, effectiveness and relevance. Surely there can be a consensus among us that if government is efficient and economical in discretionary spending it will free up resources for the non-discretionary spending required to provide benefits to the growing numbers of retirees leaving the workforce.

Fourth, let us agree that as we seek to allay the fears of existing beneficiaries we will also act *now* to allay the fears of those just entering the workforce, too. We can do that by seeking a bipartisan and cross generational consensus on reforms that will provide opportunities for a fairer return on contributions while still preserving the traditional safety net features of the present system for existing beneficiaries and those who may prefer that system in the future.

Finally, let us agree to tone down the rhetoric and be honest with each other and the American people; honestly spoken, the challenge of dealing with Social Security and Medicare is a challenge too easily put off, because it is a challenge that most of the people in this room will never have to face.

We all know that, although outlays will begin exceeding receipts as early as 2013, depending on which projection you accept, the present system could serve unchanged until at least 2030, long past the political *and* actuarial lifetime of most of today's voters and beneficiaries – if not their children. Thus it is our challenge to act *now* to reach across the aisle, and the generations, to ensure that 30 years from now the government's commitment to future retirees is relevant and the system for making good on that commitment is solvent. If we work together I am confident we can reach a bipartisan and generational consensus on Social Security and Medicare that will restore the faith of the American people that their tax dollars are wisely invested for their future retirement, and that their government wisely anticipates *and solves* future problems on their behalf.

[1] CBO estimate for fiscal year 2000 (Social Security + Medicare = $622 billion)
[2] Thomas F. Siems, senior economist and policy advisor, Federal Reserve Bank of Dallas, January 23, 2001 for the CATO Institute
[3] Population Estimates Program, Population Division, U.S. Census Bureau, Washington, D.C. 20233
[4] US Census Bureau, Characteristics of Baby Boomers
[5] Office of the Chief Actuary, Social Security Administration, June 16, 1998 (historical data), April 9, 1999 (projected data)
[6] Robert D. Reischauer (Director of CBO 1989 to 1995) in AARP Bulletin Online, January 2000
[7] The Heritage Foundation, Average Effective Social Security Tax Rates, 1999: Note the average effective OASDI tax rate is total OASDI taxes divided by total income. This differs from the OASDI statutory tax rate of 12.4 percent on earned income below the taxable wage cap ($76,200 in 2000) because the share of earned income to total income can differ from worker to worker. Likewise, not all workers are subject to the OASDI tax, so the average effective Social Security tax rate can vary significantly from worker to worker. Other sources of income, besides wages and salaries, include public assistance, Social Security, private pensions, alimony and child support, interest, rent and dividends, all of which affect the average effective OASDI tax rate.
[8] Thomas F. Siems, senior economist and policy advisor, Federal Reserve Bank of Dallas, January 23, 2001 for the CATO Institute
[9] Social Security Bulletin, Annual Statistical Supplement, 1999
[10] Robert D. Reischauer (Director of CBO 1989 to 1995) in AARP Bulletin Online, January 2000